



# The Sacramento Bee

## **Dan Walters: A road map to state's fiscal mess**

By Dan Walters  
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Reader Lawrence Feldman poses this scenario, which captures the sentiments of many:

"I moved to California in 1963 when I was 15. It seems like the state was in pretty good shape then. Roads were good, freeways were good, schools were good, college was practically free. Now it's expensive to send your kid to college, and the state is running a \$14 billion deficit. How did we get from there to here? Maybe if we had a road map showing just how we got into this mess, we'd also have a map showing us the way out."

A 650-word column cannot do justice to something as sweeping as California's budget crisis. A 250,000-word book would be more like it. But this, very briefly, is what happened: It began 30 years ago this year when voters, fed up with rapidly rising property taxes, passed Proposition 13, which slashed those taxes by more than half.

State politicians could, and should, have provided relief that was less drastic, but they dithered until it was too late. Gov. Jerry Brown, who had opposed Proposition 13, declared himself a "born-again tax cutter" after its passage, and he and lawmakers overreacted by slashing state taxes while assuming new burdens for schools and local governments.

Those decisions by voters and politicians, however, were merely the first of many myopic, short-sighted decrees with the cumulative, if unintended, consequence of creating an income-outgo gap that has persisted to one degree or another.

One example: As they were slashing taxes 30 years ago, voters and politicians began enacting a stream of lock-'em-up anti-crime laws, and the prison population expanded from about 20,000 inmates to the current 170,000-plus. Spending on prisons exploded from less than 3 percent of a \$20 billion general fund budget to nearly 10 percent of a \$100-plus billion budget, thanks in part to a powerful prison guards union.

Another: Ten years after passing Proposition 13, voters enacted Proposition 98, which guarantees schools roughly 40 percent of the budget and locks in spending levels even when state revenues decline. Nevertheless, California's per-pupil spending is below the national average.

Another: Despite chronic budget problems, politicians have kept out-of-pocket college costs among the nation's lowest, effectively a huge subsidy for middle- and upper-middle-income families.

Another: State tax codes are riddled with loopholes that cost the treasury tens of billions of dollars a year, many of which were enacted after Proposition 13's passage, such as the unconscionable sales tax exemption for custom computer software programs or the infamous tax break for yachts. Only rarely are these loopholes re-examined for their justification.

Another: When the state received a one-time, \$12 billion tax windfall in 2000, then-Gov. Gray Davis and legislators blew most of it on new spending and tax cuts, creating the most recent deficit spike. Davis was recalled, and Arnold Schwarzenegger was elected on his promise to end "crazy deficit spending."

However: Although Schwarzenegger inherited a multibillion-dollar deficit when Davis was recalled, his first act as governor was to make it much worse by reinstating a popular but unaffordable tax break for car owners that now costs the state treasury \$6 billion a year.

California's state-local tax burden is somewhere in the middle of the states. General fund spending as a share of personal income, while bouncing up a point or so immediately after Proposition 13's passage, has been very stable at around 7 percent ever since – actually a bit lower than it was in 1978.

Democrats say it's a revenue problem. Republicans say it's a spending problem. Since neither side can enforce its will, the deficits persist and grow worse when the economy flattens.